



## **Season 3 Episode 9 – Preharvest Marketing Plans**

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Announcer:

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Katelyn Kesheimer:

Hello and welcome to another episode of the Alabama Crops Report Podcast. I'm your co-host and extension entomologist, Katelyn Kesheimer.

Adam Rabinowitz:

And I'm your co-host and extension economist, Adam Rabinowitz.

Katelyn Kesheimer:

Hey Adam, it's been a while since we've been in the studio together. How are you?

Adam Rabinowitz:

I'm doing really well, Katelyn. How have you been?

Katelyn Kesheimer:

Good. Busy. Getting some corn and other crops in the ground. And things are starting to emerge and insects are coming out. So I'm a happy camper. And we have a returning guest today. We have Dr. Wendiam Sawadgo, assistant professor and extension economist with responsibilities in agricultural marketing. Welcome to the podcast, Wendiam.

Wendiam Sawadgo:

Thanks for having me on. It's a pleasure to be here.

Adam Rabinowitz:

It's good to have you here, Wendiam.

Katelyn Kesheimer:

So today we are gonna be talking about pre-harvest marketing plans. Now this is a great time to be talking about it as still some crops are getting ready to be planted and well before harvest. And so we'll be covering what is a pre-harvest marketing plan and how you can learn more about implementing them to your operation. And I for one am excited about this because as a lowly bug person, I know very little about marketing and economics. So glad to have you here, Wendiam.

Adam Rabinowitz:

So Katelyn, why don't we just start with the real basics. Wendiam, what is a pre-harvest marketing plan?

Wendiam Sawadgo:

Well, a pre-harvest marketing plan is really just trying to design a commitment mechanism to price the crop at different points throughout the growing season. And so the main basis for this is that over the course of between planting and harvesting, crop prices tend to fall down. So for instance, corn prices in 15 of the last 21 years, they've been lower in October than they were in May. And so the goal is for farmers to be able to obtain those higher crop prices that are observed in the May through July period as opposed to the post-harvesting period at October.

Katelyn Kesheimer:

So you mentioned pricing. What are the other key elements of a marketing plan that producers need to be aware of?

Wendiam Sawadgo:

Well, first thing is you want to be able to price early enough so you don't lose out on good opportunities. With marketing, we often talk about the fear, ego, and greed cycle where we see prices increasing, and so we might be unwilling to book because they might get even higher, but we might lose out on good prices if they drop later on.

Katelyn Kesheimer:

Can you follow up on the fear, ego, greed cycle? I've never heard that before, and it's kind of intriguing.

Wendiam Sawadgo:

Oftentimes, we're getting into a market, we see prices rising, and that's where we think, OK, it's a good time to invest, or it's a good time to think about if we're selling a crop, we might think, OK, prices are just going to continue to rise, and so we might be afraid to sell because we haven't quite reached the peak yet. But then once we reach the peak, that's where we get into the point where we're thinking, well we're still OK. Everything's still going to be fine, even if prices start to drop a little bit. And then they drop some more, and then we're acting out of fear. We're like, well, maybe we should sell now, but you never know when those prices have dropped, whether they're going to just bounce back up or they're going to continue to drop naturally.

Adam Rabinowitz:

And that actually is a really good picture of what we've been seeing over the last few years because a few years ago, we saw very low prices, and then now the last couple of years, prices have been coming up. Last year, we saw really record high prices, and now we're kind of coming back down again. So here we are on kind of that off of that peak, and so now it's that big question of will they bounce back up again? Will they continue going down? How should farmers make that marketing decision?

Wendiam Sawadgo:

It is. So, when we don't know what prices are going to do, that's where a pre-harvest marketing plan can really come into play because instead of just going by your gut or your feeling of what might happen when each of the last four years something completely different has happened, you can have a written plan that documents, well, if this happens ahead of time, you're committed to pursuing the strategies that you would ahead of time.

Katelyn Kesheimer:

So if I was a farmer and I was going to start to think about making a marketing plan, what type of information do I need to have to effectively carry out and market my crop?

Wendiam Sawadgo:

So the first thing you would need to know is how much of your crop are you going to market in total? And so a good way to start with that is just thinking, well, what's your actual production history? And then if you have crop insurance, what is your level of coverage? So for instance, if I have 50,000 bushels of soybeans that I plan to harvest this year and I'm covering 70% of those with yield projection, then maybe I would say, well, that's 35,000 bushels that I can essentially guarantee with crop insurance. And so I might think, OK, I have 35,000 bushels of soybeans that I want to sell pre-harvest and then the remaining 15,000 that we expect to get that aren't covered by crop insurance, those I would sell post-harvest. So with those 35,000, the second question is, what are my pricing objectives? What's the pricing target I'd like to achieve? And so you can look at those based off of historical patterns we've seen seasonality, a number of different aspects, but they should be things that are realistic. So in the past or in recent years, we've seen those pricing targets achieved. So that's sort of the maximum price you want to achieve. The second thing is the minimum price you're willing to get. And so that might be based off of aspects like cost of production sort of the minimum amount you can break even. And then the main thing we do with the pre-harvest marketing plan is we set up a series of pricing dates and quantities. So we might say, well, by March 1st, I want to market 10,000 bushels of soybeans and then every three weeks

thereafter, 5,000 bushels. And so if that date is reached and the pricing objective is ever above your pricing target, you book immediately before that date. But if you reach the date and you haven't ever hit your pricing target, the maximum price you'd like to get, but it's above your minimum price, above your cost of production, you just book regardless.

Adam Rabinowitz:

So there were a lot of key elements there that go beyond just what is the market price today or what do I think the market price will be tomorrow? And you mentioned a few things that get into production costs, get into crop insurance, start thinking about kind of your overall picture that affects profitability. What other information do farmers need to know to effectively create that marketing plan?

Wendiam Sawadgo:

The first step is really knowing your cost of production. And if you don't know it specifically for your farm, at least knowing it for the region in general is a good start. If you have what your cost of production is, then you can say, well, this is the minimum dollar per bushel amount that I'll be able to break even. And so you can base your pricing strategies off of there. And then the second thing is just knowing the market conditions. You know, if we're in a period where corn is \$4 a bushel and your pricing objectives are at \$8, then you're probably not going to realistically hit those. And so it's a good time to adjust downwards. But then again, if we're in a time period like the past couple of years where we've been in the \$5 to \$7 range for corn, pricing objectives at \$4 might not be getting you as much as you could otherwise. And so just keeping in mind those two things and knowing some other marketing tools available to you. The one thing I'll mention is a marketing strategy doesn't necessarily mention specific tools. You know, it could be booking ahead at a grain elevator or, you know, using futures contracts. But just knowing what tools you have at your disposal is another key point.

Adam Rabinowitz:

And one way to find out what some of those market fundamentals are would be the WASDE report, as we call it, the World Agricultural Supply and Demand Estimates that the USDA publishes regularly. And the most recent one here in May of 2023 has shown higher projections for yields and supply for corn and other row crops in the southeast here. And so they're also projecting now lower prices as part of that.

Katelyn Kesheimer:

Now, once they have these key pieces of information, you mentioned some strategies like booking at a grain elevator. What other type of marketing strategies are available to crop producers that can help really maximize profits and create the most effective marketing plan?

Wendiam Sawadgo:

Really, we're looking at different hedging opportunities. So we might think, well, booking ahead with futures is a good way or using futures contracts to hedge price risk is a good way. Looking at the harvest contract and buying ahead of time, you know, forward contracting is another opportunity. With a marketing plan, you might also have some built-in option strategies where you're booking those different price levels, but you're also

leaving some opportunity for prices to increase. You know, this year where, you know, maybe prices are projected to decrease might be an opportunity where an options hedge might be in play there. But overall the types of strategy used isn't as important when creating a plan, but it's more important when we come to executing that plan later on.

Adam Rabinowitz:

So now we're talking futures, options, hedging. Katelyn, how are you feeling here?

Katelyn Kesheimer:

I'm feeling a little overwhelmed. I felt at home when you mentioned the WASDE report because it was an acronym. And here at ACES and Extension, we love acronyms. But I haven't heard any insects this episode, just lots of economics talk. So a little overwhelmed.

Wendiam Sawadgo:

Well, I have good news if you're overwhelmed. We've got a course set up just to teach you all about the marketing aspects you might want to know. And so this course is on the ACES website. It goes over different marketing strategies and marketing tools available to you. So an in-depth description about futures, options, you know, different types of contracts you can enroll in, leading up to how some of the main aspects of a pre-harvest marketing plan can be implemented. So no worries, no need to fret about marketing because we've got a lot of good information at your disposal.

Katelyn Kesheimer:

So it sounds like everything we're covering in this short episode had much more depth to really have the best information at your disposal to make the best decisions.

Wendiam Sawadgo:

Yes, exactly.

Adam Rabinowitz:

And I'll just say, too, it is easily accessible, not just being on the Internet, but in terms of the information, the way it's presented there, broken down into a number of different segments. And users can just kind of take it at their own pace, moving through each of these components.

Katelyn Kesheimer:

Now, this course is available on the ACES website and we'll link to it with this podcast. So you could find it in the episode notes. But where else can farmers learn more about marketing plans and other aspects of row crop marketing that might be helpful for 2023?

Wendiam Sawadgo:

A great place is the ACES website. We have enterprise budgets for our row crops up there. So when it comes down to finding what the cost of production is for your farm, looking at those enterprise budgets might be a very good starting point. And then we try to put regular market updates up there as well. We also have the Alabama Crops Report newsletter.

Katelyn Kesheimer:

So I know we've talked about enterprise budgets before. Y'all update these every year for every crop based on current prices and growers can download them and enter their own input costs to really get a good estimate of what their budget is for that year. Correct?

Wendiam Sawadgo:

Correct. Yes. They have baseline numbers put in there, but then we always encourage farmers to adjust those numbers as much as appropriate for their operation.

Adam Rabinowitz:

Because it is very unique to each operation size or even where you are in the state. They're good estimates. It provides a good framework. But then you also have to remember to add things like either land rent or some return on that land. And certainly don't forget looking for some return on your own labor.

Katelyn Kesheimer:

So I think we've covered quite a bit today. Wendiam, is there anything else that you want to touch on on pre-harvest marketing plans that growers need to know going into this season?

Wendiam Sawadgo:

It's just always a good year to have a pre-harvest marketing plan. You know, when we talk about risk management strategies, when it comes to pricing risk, that's a big one we've seen. We've talked about year to year. The patterns of price changes differ. And so having a mechanism in place where you can commit yourself to trying to achieve different pricing targets is always a good way to try to stay in business.

Adam Rabinowitz:

So do you want to take out your crystal ball now, Wendiam? The magic answer of what's going to happen to crop prices this year?

Wendiam Sawadgo:

I'll hold off on that. Maybe next year.

Katelyn Kesheimer:

Wise decision. Well, thanks so much for being our guest, Wendiam. Producers can find more on the ACES website as well as in the Alabama Crop Report newsletter. And if you all have any questions, please feel free to reach out to any of us. Adam and Wendiam are your go-to pricing experts. And thanks for listening.

Announcer:

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